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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

November 14, 2002

Marlene H. Dortch, Secretary
Federal Communications Commission
445 Twelfth Street, S.W.
Washington, DC 20554

Re: *International Settlements Policy Reform*, IB Docket No. 02-324,
International Settlement Rates, IB Docket No. 96-261
Vodafone Americas, Inc.
Notice of Oral *Ex Parte* Presentation

Dear Ms. Dortch:

Pursuant to Section 1.1206(b) of the Commission's rules, Vodafone Americas, Inc. ("VAI"), by counsel, hereby notifies the Commission that on November 13, 2002, Richard Feasey, Public Policy Director, Vodafone Group Services Limited, Charles D. Cosson, Vice President, Public Policy, VAI, and Robert Morse, counsel to VAI, met with the following individuals to discuss issues raised in the *Notice of Proposed Rulemaking*¹ in the above-referenced proceeding: Patricia Cooper, Susan O'Connell, Jackie Ruff, Mark Uretsky and Irene Wu of the International Bureau; and Stacy Jordan, Heidi Kroll, Joseph Levin, Walt Strack, and Gregory Vadas of the Wireless Telecommunications Bureau.

Participants discussed some of the issues VAI intends to address in its comments on the *NPRM* relating to foreign mobile termination rates, as outlined in the materials provided to Commission staff attending the meeting (copy attached). VAI will address all of these matters in more detail in its formal comments.

¹ *International Settlements Policy Reform*, IB Docket No. 02-324, *International Settlement Rates*, IB Docket No. 96-261, *Notice of Proposed Rulemaking*, FCC 02-285 (rel. October 11, 2002) ("*NPRM*").

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November 14, 2002

Page 2

An original and four copies of this letter and the attachment are enclosed. Please contact the undersigned or Charles Cosson at (925) 210-3812 if there are questions concerning this filing.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Robert C. Morse". The signature is fluid and cursive, with a large, stylized "R" and "M".

Robert C. Morse

Attachment

cc: (all via email)
Lisa Choi
Patricia Cooper
Gardner Foster
Stacy Jordan
Heidi Kroll
Joseph Levin
Susan O'Connell
Jackie Ruff
Walt Strack
Mark Uretsky
Gregory Vadas
Irene Wu

Call termination



 **vodafone** Vision and Values

NPRM preview

- **domestic incentives abroad align with international**
- **no discrimination (ex. Japan)**
- **Receiving Party Pays vs Calling Party Pays**
- **retail mark ups**



Key issues

- **incentive structures**
- **allocative efficiency**
- **comparative data**
- **remedies**
- **impact**



Incentives

- **outbound competition drives calls and subscription prices to (or below) cost**
- **no firm can 'forbear from competing' for termination revenue**
 - revenues passed through to outbound prices
 - not an issue of dominance
- **Fixed To Mobile prices could become allocatively inefficient**
 - does not mean current prices are
 - a problem about structure not profits or abuse



Incentives

- **major difference between FTM and Mobile To Mobile negotiations**
 - **MTM conducted between two parties in same market, each setting others' costs**
 - **opportunity to deregulate MTM**



Allocative efficiency

- **cost modelling very underdeveloped with no consensus or stability (<9c to >25c)**
 - took 5 years in fixed and will take the same in mobile
- **Oftel's model (which is more advanced than most) still has major errors/omissions**
 - e.g. substantially understates assets
- **still disagreement on fundamental conceptual issues**
 - **magnitude of common costs**
 - non-network
 - 'minimum coverage'
 - **mark up of common costs**
 - measurement
 - distributional issues
 - consequential outbound prices



Allocative efficiency

- **network externalities**

- **call externality - disregard option etc**
- **debate on Rohlfs-Griffin factor**
- **deriving broadly similar results (OFTEL allowed 2ppm)**
- **issues then concern:**
 - **effectiveness of competition/waterbed**
 - **targeting**



Comparative issues

- RPP prices do not tell us what efficient prices would be under CPP

	CPP	Standard RPP
Subs	\$100	\$220
Outbound mobile	15c	3c
FTM	22c	8c (mobile) + 8c (fixed)

- key sensitivities are (a) valuation of receiving/making calls
(b) cross price of subs/inbound charges



Impact

- principally demand side in markets which barely cover cost of capital at industry level
- unprecedented increases in subscription charges
- shrinkage in market
 - penetration in Europe stalled at current prices
- no distributional issues that justify departure from allocative efficient price structures
 - mobile only vs fixed only weighting (4/25m)

